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This single chapter on investment climate is excerpted from the 2005 (Fall 2004 Update) Country Commercial Guide for Morocco. The full text of the report is also available on this website.

CHAPTER 7: INVESTMENT CLIMATE

Openness to Foreign Investment:

The Moroccan government actively encourages foreign investment and, in light of the FTA, is taking concrete steps to improve the investment climate for foreign and domestic investors. Moroccan officials hope that the signing of the FTA will encourage more U.S. investors to take advantage of duty-free access to both the U.S. and European markets. In addition to tariff elimination, the FTA with Morocco includes commitments to increase access to the Moroccan services sector for American firms.

King Mohamed VI and the current government have made attracting foreign and domestic investment a high priority. With the assistance of the U.S. Agency for International Development (USAID), the government is streamlining paperwork associated with investment and has established a series of Regional Investment Centers to decentralize and accelerate investment-related bureaucratic procedures.

The October 1995 investment code applies equally to foreign and Moroccan investors, with the exception of foreign exchange provisions, which favor foreign investors. Foreign investment is now permitted in most sectors, with the notable exception of phosphate mining. It is also permitted in the agricultural sector, although foreigners are prohibited from owning agricultural land. However, the law does allow long-term leases of up to 99 years and it also allows agricultural land to be purchased if it will be used for non-agricultural uses such as tourism. Morocco welcomes foreign participation in its privatization program, and does not pre-screen or select foreign investment projects.

Right to Private Ownership and Establishment:

Private ownership is permitted in all but a few sectors that are specifically reserved for the state, such as phosphate mining and ownership of agriculture land. The government passed a law in February 2003 liberalizing the audiovisual sector and lifting the government monopoly over all radio and television transmissions although it may take some time before new radio and television stations actually begin operating. Apart from these few exceptions, private entities may freely establish, acquire and dispose of interests in business enterprises.

Protection of Property Rights:

Morocco has a non-discriminatory legal system that is accessible to foreign investors. The commercial courts, established in 1998, have begun to mitigate the weaknesses in commercial proceedings. A system of commercial arbitration was also created in April 1998.

Protecting Your Product From IPR Infringement:

Morocco has a relatively complete regulatory and legislative system for the protection of intellectual property and is largely in compliance with its TRIPS obligations. It is a member of the World Intellectual Property Organization (WIPO) and is a party of the Bern Copyright, Paris Industrial Property, and

Universal Copyright Conventions; the Brussels Satellite Convention; and the Madrid, Nice, and Hague Agreements for the Protection of Intellectual Property.

While Moroccan laws are generally adequate, enforcement is sometimes lacking. Counterfeiting of clothing, luggage, and other consumer goods, as well as the illegal copying of computer software, is common. As a result, many American companies came together in 2003 and at the time of writing were forming their own advocacy group to combat IPR violations. Furthermore, the Business Software Alliance has been successful in educating retailers and consumers regarding this problem. The Moroccan government is more aggressive when it comes to tackling video piracy, and in response to complaints, the local music community has also stepped up enforcement efforts on CD and audiotape piracy. Canal+, the French satellite subscription service has left Morocco because of the trafficking of pirated cards. Counterfeiting of clothing, luggage, and even packaged food is increasing at a steady rate. However, as an FTA stipulation the Moroccan government has promised to crack down on all such activity and its doing so will have a direct impact on the success of the agreement and increased foreign investment in the country.

Secured interests in property are recognized and enforced through the "Administration de la Conservation Foncière." The Moroccan government has also passed a law permitting the development of a secondary mortgage market. Furthermore, the Office of Industrial Commercial Property (Office Marocain de la Propriété Industrielle et Commerciale) in Casablanca serves as a registry for intellectual property rights for patents and trademarks in the industrial and commercial sectors. The Moroccan Bureau of Copyrights (Bureau Marocain des Droits d'Auteur) in Rabat registers copyrights for literary and artistic works, including software. When the FTA goes in to effect the Moroccan government will use the "first-in-time, first-in-right" principle to honor trademarks and copyrights. In the FTA, the Moroccan government also vows to combat "cyber-squatting" and other digitally related IPR violations.

Morocco is implementing its intellectual property right (IPR) law for protecting new plant varieties. The basic 9/94 IPR law was published by the government in 1997, but has been effectively implemented since October 28, 2002 with the publication of various implementing orders.

The IPR law is patterned after the 1991 UPOV (International Union for the Protection of New Varieties of Plants) Convention and should provide adequate protection of breeders' rights and allow plant breeders to reap fair returns from their investment. The law will also allow Moroccan agriculture to benefit from new developments in plant breeding.

Free Trade Zones/Free Ports:

Located just 15 miles from Europe in the northwestern city of Tangier, the industrial free trade zone offers an ideal location for American corporations looking to take advantage of the U.S.-Moroccan FTA and EU-Moroccan Association Agreement and duty free export to Europe and Morocco. In addition to being exempt from all duties, taxes and surcharges due on importation, circulation, consumption, production and/or exportation of goods, corporations in the free trade zone benefit from the zone's unique one-stop administrative center facilitating corporate creation and growth.

According to the senior management of the Tangier Free Zone, further benefits include the following:

- Exemption from all registration taxes and stamps duty for both constitution or augmentation of capital, and for the acquisition of land plot
- Exemption from l'impot sur la patente (licence tax) for 15 years

- Exemption from l'impôt sur les sociétés (tax on profits) for the first 5 years and a reduced rate of 8.75% from the sixth year ad infinitum
- Exemption from la participation à la solidarité nationale (participation in national solidarity)
- Exemption from la taxe sur les produits des action, les parts sociales (share yield taxes) and assimilated revenues for non-resident
- Reduction of the above tax to 7.5% for resident
- Exemption from VAT on goods coming from abroad or subjected territory
- Affordable labor providing very competitive unit costs

For the time being, all companies located in the Free Trade Zone must supply transportation for their employees seeing as there is no public transportation and the average Moroccan cannot provide his own. The local government is however currently planning a new housing development that will provide housing for thousands of employees and their families within walking distance of the complex.

Performance Requirements/Incentives:

There are no foreign investor performance requirements or requirements regarding local value added, local equity, substitution of imports or employment of Moroccan workers. Incentives for foreign investors have been created under the Free Trade Zone laws, as well as under the Investment Code for large-scale investments. Incentives can include reduced land acquisition costs and tax breaks.

Transparency of the Regulatory System:

Although not perfect, Morocco's regulatory system is becoming increasingly transparent. One of the most important reforms in recent years is the requirement that significant government projects must be publicly announced through a competitive tender call. Liberalization of the foreign exchange allocation system, the import regime and the financial services sector has also reduced the government's role in the economy. In anticipation of the FTA, the government is working hard to ensure that its procedures are becoming more transparent, efficient and quick. Still, routine permits, especially those required by local governments, can be difficult to obtain. In response to these problems, the government has launched reforms to streamline bureaucratic procedures.

Corruption:

Morocco has a rather broad body of laws and regulations to combat corruption. Corruption nevertheless exists and U.S. companies have at times identified it as an obstacle to doing business in Morocco. Transparency however is directly addressed in the FTA with clauses outlawing of all forms of bribery and protecting whistle-blowers. Even before the FTA though, both the offering and accepting of bribes was illegal at the risk of fines and jail sentences. Bribes to foreign officials are also not tax deductible.

The previous government of Prime Minister Youssoufi made efforts to strengthen transparency and the rule of law. It initiated cooperation with Moroccan civil society and business organizations as well as with the World Bank and foreign donors on measures to fight corruption more effectively and launched a high-profile public education campaign. Since coming to power in 2002, the government of Prime Minister Jettou has continued to support such efforts.

Labor:

Once strong and politically influential, the Moroccan trade union movement is now fragmented and no longer possesses the political clout it carried 45 years ago when it helped lead the country to independence. Nevertheless, five of the nineteen trade union federations retain the potential to influence

political life. Although unions claim a higher membership, Morocco has about 600,000 unionized workers, or about 6% of its 10.866 million-member workforce.

Moroccan labor law and practice draw from French models. Labor law makes firing workers cumbersome. However, in early 2003, following intense tripartite negotiations among government, management, and labor, a major reform package, the April 30 Accord, was reached. This accord led to the adoption of a new Labor Code, which entered the “Bulletin Officiel” on December 8, 2003 and went into effect on June 7, 2004. It now supersedes all previous labor legislation.

Morocco has ratified ILO conventions covering the right to organize and bargain collectively. Any group of eight workers can organize. Article 14 of the Constitution gives workers the right to strike, but no detailed law yet exists to define it and the Interior Ministry usually intervenes when strategic interests are at stake. A strike bill is currently under discussion, but an impasse has been reached on the proposed length of pre-strike notification. Business associations have asked for two weeks notice and the unions have offered a two-day warning; the GOM has suggested ten days as a compromise.

The new Labor Code fosters modern business relationships by outlining the workers’ rights to form unions, bargain collectively, strike and receive unemployment and health related compensation while describing under what circumstances these rights are valid and how they should be properly implemented so that the employer is also protected.

The new Labor Code includes both the right to work and the right to strike, and it prohibits certain forms of industrial action while limiting the government’s police power, under Section 288 of the Penal Code to intervene. In an effort to create greater transparency and to strengthen the rule of law, the Labor Code also delineates under which circumstances it is legal for a union to attain national representation, to break a contract and to stage a walkout. For example, a union must have at least 35 % of the workforce as members in order to engage in collective bargaining. Finally, it also describes how labor-management conflicts might be avoided or resolved.

The official national unemployment figure reached 12.5 % in the first trimester of 2004 with urban unemployment at approximately 19.3% and rural unemployment at less than 4%. U.S. government sources estimate the true national average to be more like 23%. Following a 10 % increase enacted by two 5% increments in June and July 2004, the minimum wage for non-agricultural workers is 9.66 dirhams per hour or 2,010 dirhams per month (about \$223). The legal minimum age of employment is 15; however numerous forms of employment are prohibited for adolescents under the age 18. For non-agricultural workers the workweek is 44 hours.

Efficient Capital Markets and Portfolio Investment:

The Moroccan government has adopted a number of measures to liberalize the banking system in recent years. While these reforms have introduced additional competition in the banking sector, in practice, banks do not compete on deposit and lending rates, except for large customers.

Credit is allocated on market terms, and foreign investors are able to get credit on the local market. There are some cross-shareholding arrangements, but they are not tailored to exclude foreign investment. The Embassy has not heard of any efforts by the private sector or industry to restrict foreign participation in standard setting organizations. The government has actively sought out the participation of foreign investors for discussions on improving the business climate in Morocco.

Moroccan banks are generally sound, reflecting in part the limited competition within the sector, or from other financial institutions, e.g. a corporate bond market. Several state-owned, specialized banks, in particular Caisse Nationale de Credit Agricole and Credit Immobilier et Hotelier were under investigation for bad management and corruption. These two banks account for over 60 percent of non-performing assets in the banking system. The overall rate of non-performing assets in the banking system is 11 percent.

Some foreign banks are critical of what they view as a lack of proportionate participation in the Moroccan Bankers' Association. Moroccan banks are largely in compliance with the Basle standards. Banks are supervised on a consolidated basis and must provide statements audited by certified public accountants.

Expropriation and Compensation:

There have been no significant expropriations in Morocco since the early 1970s. The Embassy is not aware of any recent, confirmed instances of private property being expropriated for other than public purposes, or being expropriated in a manner that is discriminatory or not in accordance with established principles of international law.

Dispute Settlement:

Minor disputes are generally resolved with the relevant government agency. There is a consensus among Moroccan business leaders that the recent establishment of a network of commercial courts has somewhat improved commercial law operations, although enforcement of decisions still seems to be a problem. Morocco is a member of the International Center for the Settlement of Investment Disputes (ICSID) and a party to the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (with reservations) and the 1965 Convention on the Settlement of Investment Disputes Between States and Nationals of Other States.

Political Violence:

A series of terrorist bombings took place in Casablanca on May 16, 2003. U.S. Government facilities were not the target of these attacks, and no Americans were killed or injured. Moroccan security services have moved quickly and effectively to round up terrorists associated with May 16, but the potential for further attacks remains as it does worldwide.

Demonstrations occur periodically in Morocco and usually center on domestic issues. During periods of heightened international tension, large demonstrations may take place in major cities. These demonstrations have generally been peaceful, well organized, and well controlled by the police with some isolated incidents of violence.

The sparsely settled Western Sahara was long the site of armed conflict between the Moroccan government and the Polisario Front, which demands independence. A ceasefire has been in effect since 1991 in the U.N. administered area.

Foreign Direct Investment Statistics:

The Moroccan foreign exchange office maintains balance of payments statistics that include annual foreign exchange inflows for private foreign investment. These statistics differentiate between foreign direct investment (purchases of companies or increases in capital), portfolio investment, and short-term financing for current account expenditures (e.g. lending to a subsidiary for purchases of equipment). There are no statistics on the stock of foreign investment in Morocco. However, foreign direct investment totaled approximately \$8.4 billion from 1967-2001. The following tables are based on the balance of payments statistics.

Foreign Direct Investment in Morocco

(\$ in millions)

Year	Total FDI	Percent of GDP
1997	800.9	3.3
1998	384.6	1.1
1999	945.6	2.7
2000	245.8	0.8
2001	2732.2	8
2002	555.6	1.3
2003	2422.4	5.1

Private Foreign Investment Inflows* by Country of Origin

(\$ in millions)

Country	1999	2000	2001	2002
United States	112.8	35.4	83.2	37.2
France	383.3	186.6	2474.3	210.1
Spain	211.6	56.7	85.7	34.7
Germany	186	18.5	23.8	42.9
United Kingdom	21.4	49.3	26.7	29.9
Netherlands	346.4	229.3	15.3	20.2
Benelux	12.9	25.9	9.7	28.2
Saudi Arabia	10.9	13.5	7.4	14.8
Switzerland	30	23.8	41.6	32.2
Portugal	518.1	79.7	127.3	21
Int'l Finance Corp	--	408.5	--	--
Others	50.7	48.1	60.1	93.1
Total	565.8	1886	2955.3	564.2

*Includes portfolio investment and short-term financing for current account expenditures.

	1999	2000	2001	2002
Exchange Rate (dh/USD)	9.8	10.6	11.2	11
GDP (\$ in billions)	35.1	33	34.2	37.2

Private Foreign Investment Inflows* by Sector

(\$ in millions)

Sector	1999	2000	2001	2002
Industry	387.3	106.8	222.1	186.2
Fishing	0.4	1.3	--	2.1
Tourism	31	12.1	29.5	10.1
Services	36.4	29	87.8	79.8
Transport	3.5	1.6	2.5	0.3
Public Works	13.4	7.9	13.3	0.6
Banking	220.6	67.5	31.8	35.6
Real Estate	48.6	55	73	114.9
Telecommunications	1042.1	752.6	2354.8	36.3

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Other	103.2	141.5	82	100.3
Total	1886	1175.3	2955.3	564.2

*Includes portfolio investment and short-term financing for current account expenditures

Major Foreign Investors:

U.S.

Coca-Cola Export Corporation

Parent company: The Coca-Cola Export Corporation

Number of employees: 3200

Delphi Automotive (former Division of GM)

Sector: auto part manufacturer

Number of employees: 1500

J.R.A. Morocco S.A.

Parent company: Jordache Enterprises Inc.

Sector: manufacture of jeans

Number of employees: 1000

Goodyear Maroc

Parent company: Goodyear

Sector: tire production

Number of employees: 600

Jorf Lasfar Energy Company

Parent company: CMS Energy

Sector: independent power project

Number of Employees: 500

Worth: \$1.2 billion

Industries Marocaines Modernes

Parent company: Procter and Gamble

Sector: soaps and toiletries

Number of employees: 500

Kraft Foods

Sector: food products

Number of employees: 60

Other

ST Microelectronics

Parent company: S.G.S. Thomson (France)

Sector: electronic components and semiconductor manufacturing

Number of employees: 1,600

Pechiney - MMA

Parent company: Pechiney (France)

Sector: aluminum cookware manufacturing
Number of employees: 1,280

Bymaro S.A.
Parent company: Bouygues S.A. (France)
Sector: civil engineering
Number of employees: 1,000

Renault Maroc
Parent company: Renault S.A. (France)
Sector: motor vehicle assembly
Number of employees: 800

C.G.E. Maroc
Parent company: C.G.E. (France)
Sector: electric cable and transformer manufacturing
Number of employees: 675

Aventis Pharma
Parent company: Hoechst AG (Germany)
Sector pharmaceutical manufacturing
Number of employees: 400

Please Note: Country Commercial Guides are available to U.S. exporters on the website: <http://www.export.gov>. They can be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS.

U.S. exporters seeking further recommendations for trade promotion opportunities in Morocco and country-specific commercial information may also wish to visit the website of the U.S. Commercial Service in Morocco at www.buyusa.gov/morocco.

Travelers may wish to obtain the most recent travel advisory from the U.S. Department of State at www.state.gov

U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** of the **U.S. Department of Commerce's Trade Information Center** at (800) USA-TRADE, or go to one of the following websites: www.usatrade.gov or www.tradeinfo.doc.gov

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